

5. Approaching Retirement

As you move through your working career toward the next chapter in your life, it's a good idea to learn about issues and programs to complement your core pension benefits. If you are within a few years of your projected retirement date, you may want to consider the following.

One-Time Death Benefit Recipient

(Formerly called Beneficiary Designation)

When you die, a one-time death benefit may be payable to your named recipient. The one-time death benefit amount varies depending on whether you have Disability and Survivor Coverage A or B and if you die before or after retirement. For details see Section 9, Survivor Benefits.

This is a separate designation from your option beneficiary or beneficiaries who receive a lifetime monthly benefit when you die.

If a one-time death benefit recipient is not in effect on the date of death, the one-time death benefit will be paid to your estate. A one-time death benefit, plus any accumulated contributions remaining in your account, will be paid to your one-time death benefit recipient or recipients if you:

- Were receiving a service retirement benefit at the time of death.
- Were receiving or were eligible to receive a disability retirement benefit at the time of death.
- Had at least one year of service credit and died:
 - while an active CalSTRS member
 - within four months of terminating CalSTRS-covered employment
 - within four months after terminating a disability benefit, if no CalSTRS service was performed

- within 12 months after the last day of paid CalSTRS-covered service, if on an approved leave of absence without compensation for reasons other than disability or military service.

Your CalSTRS *Annual Statement of Account* identifies your one-time death benefit recipient. You can name one or more recipients, and there is no restriction on whom you may name.

To order a *One-Time Death Benefit Recipient* form, call CalSTRS at 800-228-5453 or download or order the form from www.calstrs.com.

Marriage or Domestic Partner Dissolution or Termination May Affect Designation

If the dissolution judgment or termination and the member's death occur after January 1, 2002, the one-time death benefit recipient designation of the former spouse or partner is invalid.

If you choose to have your former spouse or partner as your one-time death benefit recipient, you must submit a new *One-Time Death Benefit Recipient* form.

Protecting Your Loved Ones Before You Retire

If you are eligible to retire, you may make a "pre-retirement election of an option" to ensure a monthly lifetime income for another person or persons if you die before retirement. When you elect an option, your monthly benefit is reduced or "modified." The percentage of the reduction is based on the option selected and ages of the member and the beneficiary when the option is selected. For a description of options and their impact on your monthly benefit, see Section 6, Your Retirement Benefit.

If you make a pre-retirement election of an option and die before your retirement, the

monthly benefit paid to your option beneficiary or beneficiaries is based on the modified benefit that would have been paid if you had retired as of the date of death.

When you retire, modification of your benefit will be made using the higher of the option factors in effect as of the date you elected the option or as of your retirement date.

The example below illustrates the difference in benefits if you choose an option before retirement or wait until retirement to choose an option.

Although the benefit will be reduced at retirement, the modified benefit will be slightly higher than it would have been if the member had waited until retirement to choose an option, since the pre-retirement election of an option allows use of the younger member and beneficiary ages.

The advantages and disadvantages of choosing a pre-retirement election of an option must be assessed individually.

Effect of Pre-Retirement Option Election

Member Chooses Pre-Retirement Election of an Option

- Member retires at age 60
- Option 2 beneficiary is also age 60
- Both member and option beneficiary were age 55 when pre-retirement option was chosen

| | | |
|----------------------------------|----------|-------------------|
| Unmodified Benefit | | \$1,963.89 |
| Option Factor | x | .906 |
| Member's Modified Benefit | = | \$1,779.28 |

Member Chooses an Option at Retirement

- Member retires at age 60
- Option 2 beneficiary is also age 60

| | | |
|----------------------------------|----------|-------------------|
| Unmodified Benefit | | \$1,963.89 |
| Option Factor | x | .879 |
| Member's Modified Benefit | = | \$1,726.26 |

Advantages of a Pre-Retirement Election of an Option

If you should die before retirement and you have chosen an option beneficiary or beneficiaries, they will receive a lifetime monthly benefit. The benefit begins immediately upon your death, regardless of the beneficiary's age.

In most cases, the modified benefit will be greater if a pre-retirement election of an option is made than if an option is elected at the time of retirement.

If you become disabled after making a pre-retirement election of an option and you have a Disability Allowance, Coverage A, you may retain the option election to provide a monthly benefit to your option beneficiary.

Note: The career factor does not apply if the member dies before retirement without a pre-retirement election of an option on file at CalSTRS. For details, see *Benefit Enhancements in Section 6, Your Retirement Benefit*.

Disadvantages of a Pre-Retirement Election of an Option

If you cancel or change your pre-retirement election of an option before retiring, your retirement benefit may be reduced for life.

If your option beneficiary dies before you retire and you had elected an option, the election will be automatically canceled and your retirement benefit may be permanently reduced.

Providing Signatures

Your spouse or registered domestic partner must sign the form for pre-retirement election of an option or the *Justification for Non-Signature of Spouse or Registered Domestic Partner* form must be completed and returned with the pre-retirement election. If your spouse or partner does not sign or if CalSTRS does not receive the *Justification for Non-Signature of Spouse or Registered Domestic Partner* form, the pre-retirement election is not acceptable and will not be effective until the requirements are met.

The election will be effective on the date

signed only if CalSTRS receives the election form within 30 days from the date you sign it.

Canceling an Existing Pre-Retirement Election of an Option

You may cancel an existing pre-retirement election of an option at any time before retirement. A pre-retirement election of an option is canceled automatically if you elect a new option, elect a new option beneficiary or beneficiaries, or if your option beneficiary predeceases you.

If the pre-retirement election of an option is canceled, an assessment may apply and is calculated at retirement. The assessment will reduce your monthly retirement benefit for life.

The factors in effect on the cancellation date of the pre-retirement election of an option will be used to calculate the assessment. The assessment factor is based on:

- The option selected.
- Amount of time the pre-retirement election was in effect.
- The age of the member at the time of election and cancellation.
- Whether the member has Coverage A or Coverage B.
- Whether the option beneficiary is the member's spouse or registered domestic partner.

If you are considering canceling your pre-retirement election of an option, electing a different option or naming a different option beneficiary or beneficiaries, we recommend you meet with a CalSTRS benefits counselor to discuss the possible effects of that change on your retirement benefit.

A spouse or partner must sign the cancellation of a pre-retirement election of an option or a *Justification for Non-Signature of Spouse or Registered Domestic Partner* form must be completed and returned with the request for cancellation. If the spouse's or partner's signature is not provided or if CalSTRS does not receive the *Justification for Non-Signature of Spouse or Registered Domestic Partner* form, the cancellation is not acceptable and will not be

effective until the requirements are met.

For more information regarding pre-retirement election of an option, call CalSTRS Teletalk at 800-228-5453 and select message 300 or visit our Web site at www.calstrs.com.

Date of Birth Verification

Under some circumstances, CalSTRS will request verification of the birth date of a member or an option beneficiary. Acceptable documentation for birth date verification is listed in order of preference:

- Copy of certified birth record (recorded at least seven years prior to application for CalSTRS benefits).
- Copy of certified church baptismal record (recorded within six years of birth).
- Copy of transcript of listing in federal census (recorded within ten years of birth).

If the name has been changed from the name shown on the record of birth, a copy of the marriage certificate or court order documenting the change is required. Please do not send originals.

If you do not have any of these records, please contact CalSTRS for assistance.

About Social Security

How CalSTRS Benefits May Reduce Social Security Benefits

CalSTRS members do not pay into Social Security, therefore, if you expect to receive a Social Security benefit and a CalSTRS retirement benefit you need to know about two Social Security provisions that may reduce your Social Security benefit. They are the Windfall Elimination Provision and the Government Pension Offset. Your CalSTRS retirement benefit or Medicare benefit will not be reduced because of these provisions in Social Security law.

These provisions may affect members even if they have earned the minimum 40 Social Security credits through other employment

or expect to receive a Social Security benefit based on a spouse's earnings.

You may receive an overstated benefit estimate from Social Security because non-Social Security pensions such as CalSTRS are not taken into account in the estimate. For a more accurate estimate of benefits, please contact the Social Security Administration.

Windfall Elimination Provision

Under the Windfall Elimination Provision, Social Security uses a modified calculation for members who qualify for both a Social Security benefit based on their own covered employment (pays FICA taxes) and a CalSTRS retirement benefit.

Social Security benefits are based on the worker's average monthly earnings over a 35-year period, adjusted for inflation. When Social Security determines your benefits, it separates your average earnings into three amounts and multiplies the amounts using three different factors. For example, for a worker who turns 62 in the year 2005, the first \$627 of average monthly earnings is multiplied by 90 percent, the next \$3,152 is multiplied by 32 percent, and the remainder by 15 percent.

For those who reach 62 or become disabled in 1990 or later, the 90 percent factor is reduced to 40 percent. The exact amount of the reduction is based on the member's years of substantial earnings covered under Social Security and changes every year. In 2005, the maximum reduction in Social Security benefits under the Windfall Elimination Provision is \$313 per month.

CalSTRS members who meet the 40-credit requirement should apply for Social Security, even though the benefit may be reduced. Members are exempt from the Windfall Elimination Provision if they were eligible to retire from CalSTRS prior to January 1, 1986, or if they have 30 or more years of *substantial earnings* under employment covered by Social Security. In 2005, substantial earnings are

\$16,725 annually. With 21 to 29 years of substantial earnings, the 90 percent factor is reduced on a sliding scale beginning at 45 percent for 21 years of substantial earnings up to 90 percent for 30 or more years.

Social Security provides a guarantee to protect workers with relatively low pensions. The amount of the reduction under the Windfall Elimination Provision cannot be more than one-half of the CalSTRS pension based on earnings after 1956 that were not covered by Social Security.

Government Pension Offset

The Government Pension Offset provision affects members expecting to receive a CalSTRS retirement benefit and a Social Security benefit as a spouse, former spouse, widow or widower. Under this provision, the Social Security benefit is reduced by two-thirds of the CalSTRS retirement benefit. If two-thirds of the CalSTRS benefit exceeds the amount of the member's spousal benefit from Social Security, the member will not receive a cash benefit from Social Security. If the spouse's, widow's or widower's benefit is higher than two-thirds of the government pension amount, the beneficiary gets the difference. Even if the beneficiary is not eligible for a cash Social Security benefit, he or she may be eligible for Medicare as a spouse, widow or widower if they are not insured for Medicare on their own.

Members are exempt from the Government Pension Offset if they were eligible for CalSTRS benefits between December 1982 and June 1983 and were entitled to the Social Security spousal benefit before December 1977.

For More Information on Social Security

Due to the complexity of the formulas used in determining Social Security benefits and the many provisions and exceptions in Social Security law, we urge you to speak directly with a Social Security representative. Then you can determine if these provisions or exceptions apply to your individual situation.

Contact the Social Security Administration

at 800-772-1213 or visit its Web site at www.ssa.gov to review or download publications on the Windfall Elimination Provision and the Government Pension Offset. To access the online Windfall Elimination Provision calculator, visit the Social Security Web site at www.ssa.gov, select *Calculate Your Benefits*, and then select *WEP Online Calculator*.

The CalSTRS Web site also provides a brief video on the two provisions. Go to www.calstrs.com and type *Social Security Video* in *Search*.

Health Insurance

District-Provided Health Benefit

CalSTRS does not provide health or dental insurance coverage; your health insurance premiums can be partially or fully paid by your district after retirement through collective bargaining. Therefore, benefits vary district by district. State law requires that school districts, at a minimum, offer retiring CalSTRS members the option to continue their medical and dental insurance at their own cost. Costs can include any premium increases as well as the employer's administrative costs.

As a convenience you can request that CalSTRS deduct your health insurance premiums from your monthly benefit payments.

To request this optional deduction, use the *Insurance Premium Deduction Authorization* form in *Your Retirement Guide* and consult with the benefits department at your district office.

What About Medicare?

While California educators do not pay into Social Security, many do pay the Medicare tax at a rate of 1.45 percent of gross earnings. Therefore, you may be eligible for premium-free Part A Medicare coverage on your own or through your spouse's employment.

Medicare Premium Payment Program

CalSTRS does not provide health insurance coverage. However, CalSTRS will pay the Medicare Part A premium for members who retire or are disabled before July 1, 2006, and are not otherwise eligible for

premium-free Part A, and who enroll in Medicare Parts A and B.

Members who retire or are on disability between January 1, 2001, and June 30, 2006, must meet these specific criteria:

- Not be eligible for Medicare Part A without payment of a premium AND
- Enroll in Medicare Parts A and B at age 65 AND
- Retire from a school district that either:
 - had an election to permit certificated employees to be covered by the Medicare payroll tax prior to January 1, 2001, OR
 - has completed or is conducting the election on or after January 1, 2001, and if the member was less than 58 years of age at the time of the election, the individual member elected to pay the Medicare payroll tax. Members must retire during or after the 10-day election period.

In addition, you may authorize CalSTRS to deduct Medicare Part B and other group insurance premiums from your monthly retirement benefit. For information on this subject, see the brochure, *Your Retirement Guide*.

A Medicare Premium Payment Program informational packet will be mailed to retired members as they approach their 65th birthday.

CalPERS Long-Term Care Program

Long-term care provides personal care that some may need as a result of an accident, a chronic illness or a disabling disease such as Alzheimer's.

You and your family may be eligible for the CalPERS Long-Term Care Program. Those eligible to participate include CalSTRS active and retired members and Cash Balance Benefit Program participants, as well as their spouses, parents-in-law and siblings age 18 or older.

Call CalPERS Long-Term Care directly at 800-338-2244 or 888-225-7377 for information and an enrollment kit. You can also obtain program information from the CalPERS Web site at www.calpers.ca.gov.

Reduced Workload Program

The CalSTRS Reduced Workload Program (sometimes referred to as the “Willie Brown Act”) allows eligible members to reduce their workload from full-time to part-time duties, defined as a minimum of 50 percent of full time, for up to 10 years — normally the last 10 years before retirement. The opportunity to participate is available only if your employer offers the program.

Both member and employer contributions are paid on the full-time earnable salary, rather than the actual part-time salary earned while participating in the program. Therefore, the employer will be required to pay a higher contribution rate for a member to participate.

Because contributions are based on the full-time earnable salary, you will receive full-time service credit while working less than full time. At the time of retirement, your benefit will be calculated as though you continued to work full time, including determination of final compensation.

You must be age 55 or older, have been employed full time for a minimum 10 years of credited service and have been employed full time performing creditable service five consecutive years immediately before entering the program.

The consequences can be significant for failing to work at least 50 percent as required by the Reduced Workload Program; that is, if you do not earn creditable compensation for at least 50 percent of full-time service in any one school year. Service credit for the year will be calculated on actual time worked.

For example, a member who was employed 50 percent of full time had her pay docked because she became ill and ran out of sick leave. Consequently, she failed to perform creditable service for at least 50 percent of full time that year. Therefore, for that year she would not be eligible to participate in the Reduced Workload Program. She would earn service credit for only the time worked.

Retiring before the end of the school year can also affect program participants in the Reduced Workload Program. After discussing the Reduced Workload Program with your employer and reviewing personal qualifications, you must enter into a contractual agreement with your employer to participate.

Retiring From Other Public Retirement Systems

Defined Benefit Program members who are at least age 55 and eligible to retire from certain other California public retirement systems in California may retire with fewer than five years of CalSTRS service credit if they retire from both systems at the same time. For details see Section 6, Your Retirement Benefit.